



CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2014 AND 2013



Leaf & Cole, LLP
Certified Public Accountants

**WALDEN FAMILY SERVICES
CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013**

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Independent Auditor's Report

To the Board of Directors
Walden Family Services

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Walden Family Services, which comprise the consolidated statements of financial position as of December 31, 2014 and 2013, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Walden Family Services as of December 31, 2014 and 2013, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplementary information on pages 19 to 22 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organization*, and is also not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 21, 2015, on our consideration of Walden Family Services' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Walden Family Services' internal control over financial reporting and compliance.

Leaf & Cole LLP

San Diego, California
May 21, 2015

**WALDEN FAMILY SERVICES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2014 AND 2013**

ASSETS

| | <u>2014</u> | <u>2013</u> |
|---|---------------------|---------------------|
| <u>Current Assets:</u> (Notes 1, 2 and 4) | | |
| Cash and cash equivalents | \$ 320,322 | \$ 779,713 |
| Accounts receivable, net | 1,140,677 | 972,629 |
| Contributions receivable | 28,750 | 97,235 |
| Prepaid expenses and other assets | 159,820 | 70,969 |
| Total Current Assets | <u>1,649,569</u> | <u>1,920,546</u> |
| <u>Noncurrent Assets:</u> (Notes 1, 3 and 4) | | |
| Property and equipment, net | 33,196 | 52,580 |
| Deposits | 59,004 | 30,883 |
| Total Noncurrent Assets | <u>92,200</u> | <u>83,463</u> |
| TOTAL ASSETS | <u>\$ 1,741,769</u> | <u>\$ 2,004,009</u> |

LIABILITIES AND NET ASSETS

| | | |
|---|---------------------|---------------------|
| <u>Current Liabilities:</u> (Note 1) | | |
| Overpayments | \$ 54,092 | \$ 62,517 |
| Accounts payable - Foster parents | 179,903 | 204,928 |
| Accounts payable and accrued expenses | 126,039 | 99,048 |
| Accrued compensated absences | 126,245 | 106,791 |
| Total Current Liabilities | <u>486,279</u> | <u>473,284</u> |
| Total Liabilities | <u>486,279</u> | <u>473,284</u> |
| <u>Commitments</u> (Note 4 and 7) | | |
| <u>Net Assets:</u> (Notes 1 and 5) | | |
| Unrestricted | 1,007,441 | 1,175,661 |
| Temporarily restricted | 248,049 | 355,064 |
| Total Net Assets | <u>1,255,490</u> | <u>1,530,725</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 1,741,769</u> | <u>\$ 2,004,009</u> |

The accompanying notes are an integral part of the consolidated financial statements.

**WALDEN FAMILY SERVICES
CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2014**

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Total</u> |
|---------------------------------------|---------------------|-----------------------------------|---------------------|
| <u>Revenue and Support:</u> | | | |
| Adoption revenue | \$ 400,000 | \$ - | \$ 400,000 |
| Aftercare revenue | 199,816 | - | 199,816 |
| Cal learn revenue | 433,124 | - | 433,124 |
| Foster care placements | 4,949,646 | - | 4,949,646 |
| Grants and contributions | 264,083 | 394,414 | 658,497 |
| Nuturing parenting program revenue | 329,551 | - | 329,551 |
| Other income | 47,130 | - | 47,130 |
| Transitional housing program revenue | 1,218,610 | - | 1,218,610 |
| Visitation revenue | 773,722 | - | 773,722 |
| Net assets released from restrictions | 501,429 | (501,429) | - |
| Total Revenue and Support | <u>9,117,111</u> | <u>(107,015)</u> | <u>9,010,096</u> |
| <u>Expenses:</u> | | | |
| Program Services | <u>8,268,281</u> | <u>-</u> | <u>8,268,281</u> |
| Supporting Services: | | | |
| General and administrative | 615,459 | - | 615,459 |
| Fundraising | 401,591 | - | 401,591 |
| Total Supporting Services | <u>1,017,050</u> | <u>-</u> | <u>1,017,050</u> |
| Total Expenses | <u>9,285,331</u> | <u>-</u> | <u>9,285,331</u> |
| Change in Net Assets | (168,220) | (107,015) | (275,235) |
| Net Assets at Beginning of Year | <u>1,175,661</u> | <u>355,064</u> | <u>1,530,725</u> |
| NET ASSETS AT END OF YEAR | <u>\$ 1,007,441</u> | <u>\$ 248,049</u> | <u>\$ 1,255,490</u> |

The accompanying notes are an integral part of the consolidated financial statements.

**WALDEN FAMILY SERVICES
CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2013**

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Total</u> |
|---------------------------------------|----------------------------|-----------------------------------|----------------------------|
| <u>Revenue and Support:</u> | | | |
| Adoption revenue | \$ 345,000 | \$ - | \$ 345,000 |
| Aftercare revenue | 210,419 | - | 210,419 |
| Cal learn revenue | 491,380 | - | 491,380 |
| Foster care placements | 5,320,175 | - | 5,320,175 |
| Grants and contributions | 338,900 | 293,782 | 632,682 |
| Nuturing parenting program revenue | 307,268 | - | 307,268 |
| Other income | 31,536 | - | 31,536 |
| Transitional housing program revenue | 143,922 | - | 143,922 |
| Visitation revenue | 453,517 | - | 453,517 |
| Net assets released from restrictions | 386,712 | (386,712) | - |
| Total Revenue and Support | <u>8,028,829</u> | <u>(92,930)</u> | <u>7,935,899</u> |
| <u>Expenses:</u> | | | |
| Program Services | <u>6,996,440</u> | <u>-</u> | <u>6,996,440</u> |
| Supporting Services: | | | |
| General and administrative | 562,375 | - | 562,375 |
| Fundraising | 370,010 | - | 370,010 |
| Total Supporting Services | <u>932,385</u> | <u>-</u> | <u>932,385</u> |
| Total Expenses | <u>7,928,825</u> | <u>-</u> | <u>7,928,825</u> |
| Change in Net Assets | 100,004 | (92,930) | 7,074 |
| Net Assets at Beginning of Year | <u>1,075,657</u> | <u>447,994</u> | <u>1,523,651</u> |
| NET ASSETS AT END OF YEAR | <u><u>\$ 1,175,661</u></u> | <u><u>\$ 355,064</u></u> | <u><u>\$ 1,530,725</u></u> |

The accompanying notes are an integral part of the consolidated financial statements.

**WALDEN FAMILY SERVICES
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2014**

| | Program Services | Supporting Services | | Total |
|---|---------------------|-------------------------------|-------------------|---------------------|
| | | General and Administrative | Fundraising | |
| Advertising and marketing | \$ 22,497 | \$ 2,040 | \$ 10,092 | \$ 34,629 |
| Bad debt | - | 17,423 | 3,352 | 20,775 |
| Bank and payroll charges | 64 | 22,208 | 1,933 | 24,205 |
| Behavior and nurse consultants | 91,933 | - | - | 91,933 |
| Child activities and special events | 28,050 | - | - | 28,050 |
| Conferences, meetings and training | 28,810 | 5,906 | 3,254 | 37,970 |
| Contract labor | 64,210 | 9,743 | 11,430 | 85,383 |
| Depreciation | 14,177 | 10,258 | 1,142 | 25,577 |
| Emancipated youth | 833,745 | - | - | 833,745 |
| Equipment and building maintenance and supplies | 9,522 | 1,796 | 1,314 | 12,632 |
| Equipment rents and leases | 33,688 | 4,933 | - | 38,621 |
| Event expense | - | - | 48,231 | 48,231 |
| Foster parent reimbursements | 2,271,113 | - | - | 2,271,113 |
| Foster parent expense- Other | 88,418 | - | - | 88,418 |
| Insurance | 90,953 | 4,214 | 2,868 | 98,035 |
| Memberships, licenses and fees | 65,912 | 6,576 | 3,391 | 75,879 |
| Mileage reimbursement | 191,951 | 4,516 | 4,044 | 200,511 |
| Office and computer maintenance and supplies | 75,009 | 14,452 | 7,281 | 96,742 |
| Office rents and leases | 308,861 | 35,473 | 14,545 | 358,879 |
| Other | 65,907 | 2,001 | 3,397 | 71,305 |
| Payroll taxes and employee benefits | 802,353 | 96,675 | 58,966 | 957,994 |
| Postage and printing | 24,251 | 2,726 | 6,286 | 33,263 |
| Professional fees | - | 29,251 | - | 29,251 |
| Regional center respite care | 42,052 | - | - | 42,052 |
| Salaries | 3,058,153 | 340,376 | 219,187 | 3,617,716 |
| Telecommunications | 56,652 | 4,892 | 878 | 62,422 |
| Total Expenses | <u>\$ 8,268,281</u> | <u>\$ 615,459</u> | <u>\$ 401,591</u> | <u>\$ 9,285,331</u> |

The accompanying notes are an integral part of the consolidated financial statements.

WALDEN FAMILY SERVICES
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2013

| | Program Services | Supporting Services | | Total |
|---|---------------------|-------------------------------|-------------------|---------------------|
| | | General and Administrative | Fundraising | |
| Advertising and marketing | \$ 39,529 | \$ 3,349 | \$ 15,186 | \$ 58,064 |
| Bank and payroll charges | - | 18,344 | 2,488 | 20,832 |
| Behavior and nurse consultants | 118,616 | - | - | 118,616 |
| Child activities and special events | 53,515 | - | 90,612 | 144,127 |
| Conferences, meetings and training | 46,830 | 5,119 | 5,262 | 57,211 |
| Contract labor | 50,605 | 12,635 | 12,512 | 75,752 |
| Depreciation | 13,923 | 14,154 | 794 | 28,871 |
| Emancipated youth | 197,477 | - | - | 197,477 |
| Equipment and building maintenance and supplies | 50,323 | 8,387 | 893 | 59,603 |
| Equipment rents and leases | 31,144 | 5,368 | - | 36,512 |
| Foster parent reimbursements | 2,443,023 | - | - | 2,443,023 |
| Foster parent expense- Other | 47,666 | - | - | 47,666 |
| Insurance | 92,398 | 2,055 | 4,244 | 98,697 |
| Memberships, licenses and fees | 51,509 | 8,949 | 6,507 | 66,965 |
| Mileage reimbursement | 169,097 | 3,700 | 1,764 | 174,561 |
| Office and computer maintenance and supplies | 43,015 | 10,358 | 1,245 | 54,618 |
| Office rents and leases | 259,246 | 34,934 | 11,779 | 305,959 |
| Other | 17,256 | 1,519 | 238 | 19,013 |
| Payroll taxes and employee benefits | 605,734 | 92,867 | 45,672 | 744,273 |
| Postage and printing | 19,727 | 4,184 | 8,605 | 32,516 |
| Professional fees | - | 23,375 | 203 | 23,578 |
| Regional center respite care | 56,424 | - | - | 56,424 |
| Salaries | 2,543,873 | 309,902 | 162,006 | 3,015,781 |
| Telecommunications | 45,510 | 3,176 | - | 48,686 |
| Total Expenses | <u>\$ 6,996,440</u> | <u>\$ 562,375</u> | <u>\$ 370,010</u> | <u>\$ 7,928,825</u> |

The accompanying notes are an integral part of the consolidated financial statements.

**WALDEN FAMILY SERVICES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

| | <u>2014</u> | <u>2013</u> |
|--|--------------------------|---------------------------|
| <u>Cash Flows From Operating Activities:</u> | | |
| Change in net assets | \$ (275,235) | \$ 7,074 |
| Adjustments to reconcile change in net assets to net cash used in operating activities: | | |
| Depreciation | 25,577 | 28,897 |
| (Increase) Decrease in: | | |
| Accounts receivable, net | (168,048) | (289,413) |
| Contributions receivable | 68,485 | 41,359 |
| Prepaid expenses and other assets | (88,851) | (14,011) |
| Increase (Decrease) in: | | |
| Overpayments | (8,425) | 30,428 |
| Accounts payable - Foster parents | (25,025) | 15,183 |
| Accounts payable and accrued expenses | 26,991 | (99,251) |
| Accrued compensated absences | 19,454 | (9,171) |
| Net Cash Used in Operating Activities | <u>(425,077)</u> | <u>(288,905)</u> |
| <u>Cash Flows From Investing Activities:</u> | | |
| Purchases of property and equipment | (6,193) | (60,711) |
| Payments for deposits | (28,121) | (15,908) |
| Net Cash Used in Investing Activities | <u>(34,314)</u> | <u>(76,619)</u> |
| Net Decrease in Cash and Cash Equivalents | (459,391) | (365,524) |
| Cash and Cash Equivalents at Beginning of Year | <u>779,713</u> | <u>1,145,237</u> |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | <u><u>\$ 320,322</u></u> | <u><u>\$ 779,713</u></u> |
| <u>Supplemental Disclosures of Noncash Investing and Financing Activities:</u> | | |
| Acquisition of property and equipment included in accounts payable and accrued expenses | <u><u>\$ -</u></u> | <u><u>\$ (21,113)</u></u> |

The accompanying notes are an integral part of the consolidated financial statements.

**WALDEN FAMILY SERVICES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013**

Note 1 - Organization and Significant Accounting Policies:

Organization

The consolidated financial statements will be referred to as “Organization” and include the accounts of the following entities:

Walden Environment

Walden Environment dba Walden Family Services (Walden) was formed in 1976 as a nonprofit organization to provide advocacy, out of home placement, and treatment services for children unable to remain in their own homes due to abandonment, abuse, or neglect. Walden’s goal is to help stabilize children, youth and families through community-based prevention and intervention services. Walden is a treatment-level foster family and adoption agency which is engaged in the recruitment, certification, and training of foster and adoptive parents, and the placement of foster and adoptive children. Walden’s funding comes primarily from federal, state, and county welfare programs. Walden provided services to 473 unique foster care clients plus hundreds more children/youth/teens/families through our Adoptions, After Care, Advancing Youth Advocates, Cal Learn, First 5 Nurturing Parenting programs, Visitation Centers, and Independent Futures.

Walden Family Services Foundation

Walden Family Services Foundation (Foundation) was incorporated in 2001. The purpose of the Foundation is the solicitation, receipt, and administration of contributions for the benefit of Walden. The Foundation’s support is mainly from contributions received from businesses and individuals in Southern California.

The following is a brief description of the Organization’s programs:

Adoption

Walden Family Services is committed to the child’s need for a permanent home. In order to facilitate strong attachments, Walden provides training and supportive therapy for the family and child. In addition, post adoptive services are provided after the legal adoption services are finalized. Walden is committed to facilitating the family’s adjustments as the child grows through each developmental stage into early adulthood.

Therapeutic Foster Care

Therapeutic foster care is an alternative to institutionalization for children. The children in Walden’s care have severe emotional and behavioral challenges as a result of past abuse and are in need of intensive services to help them heal and remain in a family environment. Many of the children have suffered the trauma of multiple foster families or group home placements before coming to Walden. With Walden’s specially trained foster families and support services, children that otherwise would be in a group home are able to live with a family. Walden is a cost-effective alternative to group home care that allows children to grow into healthy adult members of the community.

**WALDEN FAMILY SERVICES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013**

Note 1 - Organization and Significant Accounting Policies: (Continued)

Organization (Continued)

Special Health Care Needs

Walden's Special Health Care Needs (SHCN) program is designed to move children with medical needs out of skilled nursing facilities and hospitals into highly skilled and specifically trained certified foster families. This program also cares for children with technology-dependent conditions such as apnea monitors, nebulizers, oxygen, feeding tubes and other adaptive equipment. Other children in the program may include infants that have been drug-exposed, born prematurely or failing to thrive, children with juvenile diabetics, failure to thrive infants, premature infants, or children with other life threatening medical conditions. This unique program includes intensive training and support for foster parents willing to care for a child with special health care needs.

Developmental Disabilities Program

Walden Family Services serves the needs of foster children and teens with intellectual disabilities, cerebral palsy, epilepsy, autism and other similar challenges. The goal of this program is to prevent institutionalization, prepare children and teens for maximum independence and enrich lives by participation in a full range of normal life experiences in family and community settings.

Lesbian, Gay, Bisexual, Transgender, and Questioning (LGBTQ) Foster Care Network

This program is designed to meet the special needs of LGBTQ foster youth in Southern California. The focus of this program is education and advocacy services for LGBTQ foster youth, and training and support for child welfare providers, foster parents and birth families. Walden Family Services has actively recruited and educated members of the LGBT community to become certified foster and adoptive parents.

First 5 Nurturing Parenting Program

Through a contract with First 5 of San Bernardino, Walden is providing Parenting Classes through the Nurturing Parenting program (FAMILY Program -Father and Mothers who are Inspired, Loving and Young) for teen parents with children 0-5 years old throughout San Bernardino County. Nurturing Parenting Curriculum is an evidenced-based philosophy that helps parents enhance their parenting skills, and the classes are offered free of charge in locations across the county.

Cal-Learn

Walden provides the Cal-Learn program in San Bernardino County, which is designed to provide case management services to assist pregnant and parenting teens receiving CalWORKS to attend and graduate from high school, or its equivalent. Coordinated services help teens become self-sufficient adults and responsible parents, obtaining an education and having access to health and social services.

**WALDEN FAMILY SERVICES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013**

Note 1 - Organization and Significant Accounting Policies: (Continued)

Organization (Continued)

Foster Care for Pregnant and Parenting Teens

Walden provides support and training to pre and post emancipated pregnant and parenting teens through this program. Services include support with the court process, parenting training, budgeting assistance and referrals to community resources. The program offers services and support to both teens that have custody of their children and teens working toward reunification with their dependent children. Additionally, under this program, Walden supports California Statute SB500 (Whole Family Foster Home - WFFH) placements and provides the services listed in the above paragraph to WFFH placements.

Independent Futures Program

Walden created the Independent Futures Program in 2001 to assist pre and post emancipated Walden foster youth when they exit from foster care. It is a grant and philanthropy funded program which serves over 70 pre- and post-emancipated foster youth. Funding has made it possible for Walden to focus on the core areas of its program: education (supporting youth through high school and college with exposure, tutoring, resource management, applications); employment (resume building, interview skills, job expectations, ethical behavior, productivity and attitude); health (coping with chronic health issues that are often the consequence of early abuse and neglect); connections (adult mentors that will serve as a constant source of support for these youth who often have no other lasting relationships); financial literacy (shopping, bills, housing deposits); housing (developing a housing budget, paperwork, acquiring utilities and obtaining necessary furnishings).

San Bernardino After Care

Walden is contracted with San Bernardino County to provide aftercare services in the high desert for 18-21 year olds. Walden's Aftercare program is a supportive service that assists former foster youth with overcoming the challenges they may face when leaving foster care. We believe former foster youth have what it takes to succeed and support them in common areas that former foster youth often struggle with such as, daily life skills, medical, dental and emotional health, mentoring, educational assistance, employment assistance, housing assistance and permanent connection support.

Transitional Housing Program + Foster Care (THP+FC)

THP+FC, provides youth ages 18-21 with safe, affordable housing in a neighborhood of their choosing, comprehensive and individualized case management, life-skills training, mentors, opportunities to make community connections, and goal-planning under AB12, the state law that enables youth to stay in foster care until age of 21. Walden was one of the first agencies in Southern California to receive this new license and is currently operating the program in our Riverside, LA and San Diego Districts.

**WALDEN FAMILY SERVICES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013**

Note 1 - Organization and Significant Accounting Policies: (Continued)

Organization (Continued)

Advancing Youth Advocates (AYA)

Advancing Youth Advocates trains former foster youth to present the William Bridges Transitions Framework in order to assist foster youth and former foster youth, current and potential foster families, social work professionals, and child welfare providers in understanding the challenges all individuals experience when processing the psychological transitions that occur from the point of change.

San Bernardino County Visitation Center

Through a contract with San Bernardino County, Walden's visitation centers in San Bernardino and Victorville provides a place for birth families to have their supervised visits. Walden provides visitation coaches to each birth family in order to give them the tools they need to help decrease their child's length of stay in foster care. Walden provides over 800 hours of visits each month.

Significant Accounting Policies

Consolidated Financial Statements

The consolidated financial statements include the accounts of Walden Environment and Walden Family Services Foundation. All material intercompany transactions have been eliminated in consolidation.

Method of Accounting

The consolidated financial statements of the Organization have been prepared on the accrual basis of accounting which is in accordance with accounting principles generally accepted in the United States of America (GAAP) and, accordingly, reflect all significant receivables, payables, and other liabilities.

Financial Statement Presentation

The consolidated financial statements present information regarding the financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

- Unrestricted net assets – Net assets not subject to donor imposed stipulations
- Temporarily restricted net assets – Net assets subject to donor imposed stipulations that will be met by actions of the Organization and/or the passage of time. When a donor stipulated time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of activities as net assets released from restrictions.
- Permanently restricted net assets – Net assets subject to donor imposed stipulations requiring that they be maintained permanently by the Organization. The income from these assets is available for either general operations or specific programs as specified by the donor.

**WALDEN FAMILY SERVICES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013**

Note 1 - Organization and Significant Accounting Policies: (Continued)

Significant Accounting Policies (Continued)

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Fair Value Measurements

Fair value accounting standards define fair value, establish a framework for measuring fair value, outline a fair value hierarchy based on inputs used to measure fair value and enhance disclosure requirements for fair value measurements. The fair value hierarchy distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Level 1 or 2 of the hierarchy) and the reporting entity's own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy). The Organization had no financial instruments at December 31, 2014 and 2013.

Allowance for Doubtful Accounts and Overpayments

Accounts receivable consist of program fees due from counties in Southern California that have been earned for foster children. Bad debts are recognized on the allowance method based on historical experience and management's evaluation of outstanding receivables. The allowance for doubtful accounts receivable totaled \$25,252 and \$30,916 at December 31, 2014 and 2013, respectively.

Overpayments are fees received from funding sources which Walden has determined are not due at the time of receipt. Overpayments totaled \$54,092 and \$62,517 at December 31, 2014 and 2013, respectively.

Contributions

Contributions are recognized when the donor makes a promise to give to the Organization that is in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restriction expires in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. Contributions to be received in future periods are discounted at an appropriate discount rate. Amortization of discounts is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions.

**WALDEN FAMILY SERVICES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013**

Note 1 - Organization and Significant Accounting Policies: (Continued)

Significant Accounting Policies (Continued)

Capitalization and Depreciation

The Organization capitalizes all expenditures in excess of \$1,000 for property and equipment at cost, while donations of property and equipment are recorded at their estimated fair values. Such donations are reported as unrestricted unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time. Property and equipment are depreciated using the straight-line method over the estimated useful asset lives as follows:

| | |
|-------------------------|---------|
| Furniture and equipment | 5 years |
| Leasehold improvements | 5 years |
| Software | 3 years |

Depreciation totaled \$25,577 and \$28,897 for the years ended December 31, 2014 and 2013, respectively.

Maintenance and repairs are charged to operations as incurred. Upon sale or disposition of property or equipment, the asset account is reduced by the cost and the accumulated depreciation account is reduced by the depreciation taken prior to the sale. Any resultant gain or loss is then recorded as income or expense.

Compensated Absences

Accumulated unpaid vacation totaling \$126,245 and \$106,791 at December 31, 2014 and 2013, respectively, is accrued when incurred.

Revenue Recognition

Walden's revenue is generated through performance of services for government entities under various contracts for which they are paid a fixed fee or on a cost-reimbursement basis. Revenue is recognized as the services are provided and/or costs are incurred. Accounts receivable are recorded when revenue earned under a contract exceeds the cash received.

Walden receives foster care payments for its children from the respective counties and Regional Centers. In turn, Walden issues monthly payments to the foster families for its children. This reimbursement to foster parents represents approximately 46% of the total foster care placements for the years ended December 31, 2014 and 2013.

**WALDEN FAMILY SERVICES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013**

Note 1 - Organization and Significant Accounting Policies: (Continued)

Significant Accounting Policies (Continued)

Donated Services and Materials

The Organization utilizes the services of many volunteers throughout the year. This contribution of services by the volunteers is not recognized in the consolidated financial statements unless the services received (a) create or enhance nonfinancial assets or (b) require specialized skills which are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. The donated services for the years ended December 31, 2014 and 2013, did not meet the requirements above, therefore no amounts were recognized in the consolidated financial statements.

In-kind contributions of goods used for program services with an estimated fair value of \$42,369 and \$63,798 for the years ended December 31, 2014 and 2013, respectively, are included in grants and contributions in the consolidated statements of activities.

Allocated Expenses

The Organization allocates its expenses on a functional basis among its various programs and supporting services. Expenditures which can be identified with a specific program or support services are allocated directly, according to their natural expenditure classification. Costs that are common to several functions are allocated among the program and supporting services on the basis of time records, space utilized, and estimates made by the Organization's management.

Income Taxes

Walden and Foundation are public charities and are exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code. Walden and Foundation believe that they have appropriate support for any tax positions taken, and as such, do not have any uncertain tax positions that are material to the financial statements. Walden and Foundation are not private foundations.

The Organization's Returns of Organization Exempt from Income Tax for the years ended December 31, 2014, 2013, 2012 and 2011 are subject to examination by the Internal Revenue Service and State taxing authorities, generally the three to four years after the returns were filed.

Concentrations

Credit Risk

The Organization maintains its cash and investments in bank deposit accounts and brokerage accounts which, at times, may exceed federally insured limits. The Organization has not experienced any losses in such accounts. The Organization believes it is not exposed to any significant credit risk on cash and cash equivalents.

**WALDEN FAMILY SERVICES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013**

Note 1 - Organization and Significant Accounting Policies: (Continued)

Significant Accounting Policies (Continued)

Concentrations (Continued)

Accounts Receivable and Revenue

The primary accounts receivable balance consist of amounts due from three government agencies for foster care and THP+FC placements totaling \$710,924 which represents 62% of the total accounts receivable balance as of December 31, 2014.

The Organization received \$4,949,646 or 55% of its revenue and support from eleven government agencies for foster care placements for the year ended December 31, 2014.

Cash and Cash Equivalents

For purposes of the consolidated statement of cash flows, the Organization considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

Subsequent Events

In preparing these consolidated financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through May 21, 2015, the date the consolidated financial statements were available to be issued.

Note 2 - Contributions Receivable:

Contributions receivable consist of the following at December 31:

| | <u>2014</u> | <u>2013</u> |
|---------------------------|------------------|------------------|
| Due in less than one year | \$ <u>28,750</u> | \$ <u>97,235</u> |

Management believes that all contributions receivable were fully collectible; therefore, no allowance for doubtful accounts was recorded at December 31, 2014 and 2013.

Note 3 - Property and Equipment:

Property and equipment consist of the following at December 31:

| | <u>2014</u> | <u>2013</u> |
|--------------------------------|------------------|------------------|
| Furniture and equipment | \$ 255,766 | \$ 252,481 |
| Leasehold improvements | 26,734 | 24,909 |
| Software | 53,370 | 52,287 |
| Subtotal | <u>335,870</u> | <u>329,677</u> |
| Less: Accumulated depreciation | <u>(302,674)</u> | <u>(277,097)</u> |
| Property and Equipment, Net | <u>\$ 33,196</u> | <u>\$ 52,580</u> |

**WALDEN FAMILY SERVICES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013**

Note 4 – Line-of-Credit:

Walden Family Services has a line-of-credit available in the amount of \$500,000 with Chase Bank. The line-of-credit provides for interest at the bank’s prime rate plus 3.00%. The line-of-credit is secured by substantially all of Walden Family Service’s assets. The line-of-credit is renewable in September 2015. There were no outstanding advances under the line-of-credit at December 31, 2014 and 2013.

Note 5 - Temporarily Restricted:

Temporarily restricted net assets are available for the following purposes at December 31:

| | <u>2014</u> | <u>2013</u> |
|--------------------------------|-------------------|-------------------|
| Fostering Promising Families | \$ 97,871 | \$ 68,730 |
| Independent futures | 67,546 | 127,416 |
| Scholarships and job readiness | 38,981 | 43,989 |
| Impossible | 17,122 | 22,580 |
| Transitions | 16,529 | 69,349 |
| Strategic branding | 10,000 | - |
| Contributions receivable | - | 23,000 |
| | <u>\$ 248,049</u> | <u>\$ 355,064</u> |

Net assets totaling \$501,429 and \$386,712 were released from donor restrictions by incurring expenses satisfying the purpose or time restrictions specified by donors for the years ended December 31, 2014 and 2013, respectively.

Note 6 - Deferred Compensation Plan:

The Organization sponsors a 401(k) deferred compensation plan (Plan). Employees may elect to contribute up to the maximum amount allowed by federal law, as defined in the Plan. Each employee self-directs the investment of his or her assets. The Organization may make matching contributions to the Plan. The Organization did not make a matching contribution for the years ended December 31, 2014 and 2013.

Note 7 - Operating Lease Commitments:

The Organization leases its facilities under various operating lease agreements. The leases expire at various dates through July 2017. Office rents and leases totaled \$340,707 and \$271,002 for the years ended December 31, 2014 and 2013, respectively.

**WALDEN FAMILY SERVICES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013**

Note 7 - Operating Lease Commitments: (Continued)

The following is a schedule of future minimum lease payments under the leases:

| <u>Years Ended December 31</u> | |
|------------------------------------|-------------------|
| 2015 | \$ 228,418 |
| 2016 | 92,422 |
| 2017 | <u>53,125</u> |
| Total | <u>\$ 373,965</u> |

The Organization also leases certain office equipment under various operating lease agreements and month-to-month rentals. Equipment rents and leases totaled \$38,621 and \$36,512 for the years ended December 31, 2014 and 2013, respectively.

SUPPLEMENTARY INFORMATION

**WALDEN FAMILY SERVICES
CONSOLIDATING SCHEDULE OF FINANCIAL POSITION
DECEMBER 31, 2014**

ASSETS

| | <u>Walden</u> | <u>Foundation</u> | <u>Eliminations</u> | <u>Consolidated</u> |
|-----------------------------------|----------------------------|--------------------------|----------------------------|----------------------------|
| <u>Current Assets:</u> | | | | |
| Cash and cash equivalents | \$ 144,364 | \$ 175,958 | \$ - | \$ 320,322 |
| Accounts receivable, net | 1,140,677 | - | - | 1,140,677 |
| Contributions receivable | 23,750 | 5,000 | - | 28,750 |
| Prepaid expenses and other assets | 159,820 | - | - | 159,820 |
| Intercompany receivables | 108,737 | - | (108,737) | - |
| Total Current Assets | <u>1,577,348</u> | <u>180,958</u> | <u>(108,737)</u> | <u>1,649,569</u> |
| <u>Noncurrent Assets:</u> | | | | |
| Property and equipment, net | 33,196 | - | - | 33,196 |
| Deposits | 59,004 | - | - | 59,004 |
| Total Noncurrent Assets | <u>92,200</u> | <u>-</u> | <u>-</u> | <u>92,200</u> |
| TOTAL ASSETS | <u>\$ 1,669,548</u> | <u>\$ 180,958</u> | <u>\$ (108,737)</u> | <u>\$ 1,741,769</u> |

LIABILITIES AND NET ASSETS

| | | | | |
|---|----------------------------|--------------------------|----------------------------|----------------------------|
| <u>Current Liabilities:</u> | | | | |
| Overpayments | \$ 54,092 | \$ - | \$ - | \$ 54,092 |
| Accounts payable - Foster parents | 179,903 | - | - | 179,903 |
| Accounts payable and accrued expenses | 126,039 | - | - | 126,039 |
| Accrued compensated absences | 126,245 | - | - | 126,245 |
| Intercompany payables | - | 108,737 | (108,737) | - |
| Total Current Liabilities | <u>486,279</u> | <u>108,737</u> | <u>(108,737)</u> | <u>486,279</u> |
| Total Liabilities | <u>486,279</u> | <u>108,737</u> | <u>(108,737)</u> | <u>486,279</u> |
| <u>Net Assets:</u> | | | | |
| Unrestricted | 1,064,584 | (57,143) | - | 1,007,441 |
| Temporarily restricted | 118,685 | 129,364 | - | 248,049 |
| Total Net Assets | <u>1,183,269</u> | <u>72,221</u> | <u>-</u> | <u>1,255,490</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 1,669,548</u> | <u>\$ 180,958</u> | <u>\$ (108,737)</u> | <u>\$ 1,741,769</u> |

**WALDEN FAMILY SERVICES
CONSOLIDATING SCHEDULE OF FINANCIAL POSITION
DECEMBER 31, 2013**

ASSETS

| | <u>Walden</u> | <u>Foundation</u> | <u>Eliminations</u> | <u>Consolidated</u> |
|----------------------------------|----------------------------|--------------------------|----------------------------|----------------------------|
| <u>Current Assets:</u> | | | | |
| Cash and cash equivalents | \$ 323,746 | \$ 455,967 | \$ - | \$ 779,713 |
| Accounts receivable, net | 972,629 | - | - | 972,629 |
| Contributions receivable | 23,635 | 73,600 | - | 97,235 |
| Prepaid expenses | 70,969 | - | - | 70,969 |
| Intercompany receivables | 140,704 | - | (140,704) | - |
| Total Current Assets | <u>1,531,683</u> | <u>529,567</u> | <u>(140,704)</u> | <u>1,920,546</u> |
| <u>Noncurrent Assets:</u> | | | | |
| Property and equipment, net | 52,580 | - | - | 52,580 |
| Deposits | 30,883 | - | - | 30,883 |
| Total Noncurrent Assets | <u>83,463</u> | <u>-</u> | <u>-</u> | <u>83,463</u> |
| TOTAL ASSETS | <u>\$ 1,615,146</u> | <u>\$ 529,567</u> | <u>\$ (140,704)</u> | <u>\$ 2,004,009</u> |

LIABILITIES AND NET ASSETS

| | | | | |
|---|----------------------------|--------------------------|----------------------------|----------------------------|
| <u>Current Liabilities:</u> | | | | |
| Overpayments | \$ 62,517 | \$ - | \$ - | \$ 62,517 |
| Accounts payable - Foster parents | 204,928 | - | - | 204,928 |
| Accounts payable and accrued expenses | 99,048 | - | - | 99,048 |
| Accrued compensated absences | 106,791 | - | - | 106,791 |
| Intercompany payables | - | 140,704 | (140,704) | - |
| Total Current Liabilities | <u>473,284</u> | <u>140,704</u> | <u>(140,704)</u> | <u>473,284</u> |
| Total Liabilities | <u>473,284</u> | <u>140,704</u> | <u>(140,704)</u> | <u>473,284</u> |
| <u>Net Assets:</u> | | | | |
| Unrestricted | 1,067,132 | 108,529 | - | 1,175,661 |
| Temporarily restricted | 74,730 | 280,334 | - | 355,064 |
| Total Net Assets | <u>1,141,862</u> | <u>388,863</u> | <u>-</u> | <u>1,530,725</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 1,615,146</u> | <u>\$ 529,567</u> | <u>\$ (140,704)</u> | <u>\$ 2,004,009</u> |

**WALDEN FAMILY SERVICES
CONSOLIDATING SCHEDULE OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2014**

| | <u>Walden</u> | <u>Foundation</u> | <u>Eliminations</u> | <u>Consolidated</u> |
|--------------------------------------|---------------------|-------------------|---------------------|---------------------|
| <u>Revenue and Support:</u> | | | | |
| Adoption revenue | \$ 400,000 | \$ - | \$ - | \$ 400,000 |
| Aftercare revenue | 199,816 | - | - | 199,816 |
| Cal learn revenue | 433,124 | - | - | 433,124 |
| Foster care placements | 4,949,646 | - | - | 4,949,646 |
| Grants and contributions | 216,481 | 442,016 | - | 658,497 |
| Nuturing parenting program revenue | 329,551 | - | - | 329,551 |
| Other income | 46,843 | 287 | - | 47,130 |
| Transitional housing program revenue | 1,218,610 | - | - | 1,218,610 |
| Visitation revenue | 773,722 | - | - | 773,722 |
| Total Revenue and Support | <u>8,567,793</u> | <u>442,303</u> | <u>-</u> | <u>9,010,096</u> |
| <u>Expenses:</u> | | | | |
| Program Services | <u>7,910,927</u> | <u>357,354</u> | <u>-</u> | <u>8,268,281</u> |
| Supporting Services: | | | | |
| General and administrative | 615,459 | - | - | 615,459 |
| Fundraising | - | 401,591 | - | 401,591 |
| Total Supporting Services | <u>615,459</u> | <u>401,591</u> | <u>-</u> | <u>1,017,050</u> |
| Total Expenses | <u>8,526,386</u> | <u>758,945</u> | <u>-</u> | <u>9,285,331</u> |
| Change in Net Assets | 41,407 | (316,642) | - | (275,235) |
| Net Assets at Beginning of Year | <u>1,141,862</u> | <u>388,863</u> | <u>-</u> | <u>1,530,725</u> |
| NET ASSETS AT END OF YEAR | <u>\$ 1,183,269</u> | <u>\$ 72,221</u> | <u>\$ -</u> | <u>\$ 1,255,490</u> |

**WALDEN FAMILY SERVICES
CONSOLIDATING SCHEDULE OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2013**

| | <u>Walden</u> | <u>Foundation</u> | <u>Eliminations</u> | <u>Consolidated</u> |
|--------------------------------------|---------------------|-------------------|---------------------|---------------------|
| <u>Revenue and Support:</u> | | | | |
| Adoption revenue | \$ 345,000 | \$ - | \$ - | \$ 345,000 |
| Aftercare revenue | 210,419 | - | - | 210,419 |
| Cal learn revenue | 491,380 | - | - | 491,380 |
| Foster care placements | 5,320,175 | - | - | 5,320,175 |
| Grants and contributions | 101,535 | 531,147 | - | 632,682 |
| Nuturing parenting program revenue | 307,268 | - | - | 307,268 |
| Other income | 30,973 | 563 | - | 31,536 |
| Transitional housing program revenue | 143,922 | - | - | 143,922 |
| Visitation revenue | 453,517 | - | - | 453,517 |
| Total Revenue and Support | <u>7,404,189</u> | <u>531,710</u> | <u>-</u> | <u>7,935,899</u> |
| <u>Expenses:</u> | | | | |
| Program Services | <u>6,621,391</u> | <u>375,049</u> | <u>-</u> | <u>6,996,440</u> |
| Supporting Services: | | | | |
| General and administrative | 562,375 | - | - | 562,375 |
| Fundraising | - | 370,010 | - | 370,010 |
| Total Supporting Services | <u>562,375</u> | <u>370,010</u> | <u>-</u> | <u>932,385</u> |
| Total Expenses | <u>7,183,766</u> | <u>745,059</u> | <u>-</u> | <u>7,928,825</u> |
| Change in Net Assets | 220,423 | (213,349) | - | 7,074 |
| Net Assets at Beginning of Year | <u>921,439</u> | <u>602,212</u> | <u>-</u> | <u>1,523,651</u> |
| NET ASSETS AT END OF YEAR | <u>\$ 1,141,862</u> | <u>\$ 388,863</u> | <u>\$ -</u> | <u>\$ 1,530,725</u> |

**WALDEN FAMILY SERVICES
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2014**

| Federal Grants/Pass -Through Grantor/Program or Cluster Title | Federal CFDA Number | Federal Expenditures |
|--|---------------------------|----------------------------|
| <u>U.S. Department of Health and Human Services:</u> | | |
| Pass-Through Programs From: | | |
| Temporary Assistance for Needy Families: | | |
| County of San Bernardino | 93.558 | \$ <u>433,124</u> |
| Foster Care Title IV-E: | | |
| County of Los Angeles | 93.658 | 1,141,354 |
| County of Riverside | | 763,925 |
| County of San Bernardino | | 569,778 |
| County of San Diego | | 287,408 |
| Imperial County | | 87,276 |
| County of San Joaquin | | 32,105 |
| County of Santa Barbara | | 17,533 |
| County of Sacramento | | 10,838 |
| County of Yolo | | 6,902 |
| County of Orange | | 4,945 |
| County of Solano | | 3,808 |
| Total Foster Care Title IV-E | | <u>2,925,872</u> |
| Adoption Assistance: | | |
| California Department of Health and Human Services | 93.659 | <u>200,000</u> |
| Social Services Block Grant: | | |
| County of San Diego | 93.667 | <u>26,212</u> |
| Chafee Foster Care Independence Program (Aftercare): | | |
| County of San Bernardino | 93.674 | <u>119,890</u> |
| Total U.S. Department of Health and Human Services | | <u>3,705,098</u> |
| Total Expenditures of Federal Awards | | <u>\$ <u>3,705,098</u></u> |

(Continued)

**WALDEN FAMILY SERVICES
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2014**

Note 1 - Basis of Presentation:

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of Walden Family Services under programs of the federal government for the year ended December 31, 2014. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Nonprofit Organizations. Because the Schedule presents only a selected portion of the operations of Walden Family Services it is not intended to and does not present the financial position, changes in net assets, or cash flows of Walden Family Services.

Note 2 - Summary of Significant Accounting Policies:

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-133. *Cost Principles for Non-Profit Organizations*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.



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**Independent Auditor's Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in
Accordance With Government Auditing Standards**

To the Board of Directors
Walden Family Services

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Walden Family Services, which comprise the statement of financial position as of December 31, 2014, and the related statements of activities, functional expenses and cash flows for the year then ended and the related notes to the financial statements, and have issued our report thereon dated May 21, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Walden Family Services' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Walden Family Services' internal control. Accordingly, we do not express an opinion on the effectiveness of Walden Family Services' internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Walden Family Services' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Leaf & Cole LLP

San Diego, California
May 21, 2015



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**Independent Auditor's Report on Compliance
for Each Major Program and on Internal Control Over
Compliance Required by OMB Circular A-133**

To the Board of Directors
Walden Family Services

Report on Compliance for Each Major Federal Program

We have audited Walden Family Services' compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Walden Family Services' major federal programs for the year ended December 31, 2014. Walden Family Services' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Walden Family Services' major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Walden Family Services' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Walden Family Services' compliance.

Opinion on Each Major Federal Program

In our opinion, Walden Family Services complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2014.

Report on Internal Control Over Compliance

Management of Walden Family Services is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Walden Family Services' internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Walden Family Services' internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Leaf & Cole LLP

San Diego, California
May 21, 2015

**WALDEN FAMILY SERVICES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2014**

Section I - Summary of Auditor's Results:

Financial Statements

| | | | |
|---|------------|----------------------------|--|
| Type of auditor's report issued: | Unmodified | | |
| Internal control over financial reporting: | | | |
| Material weakness(es) identified? | _____ Yes | <u> X </u> No | |
| Significant deficiencies identified not considered to be material weaknesses? | _____ Yes | <u> X </u> None reported | |
| Noncompliance material to financial statements noted? | _____ Yes | <u> X </u> No | |

Federal Awards

| | | | |
|---|------------|----------------------------|--|
| Type of auditor's report issued on compliance for major programs: | Unmodified | | |
| Internal control over major programs: | | | |
| Material weakness(es) identified? | _____ Yes | <u> X </u> None reported | |
| Significant deficiencies identified not considered to be material weakness(es)? | _____ Yes | <u> X </u> No | |
| Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)? | _____ Yes | <u> X </u> No | |

Identification of major programs:

| <u>CDFA Number(s)</u> | <u>Name of Federal Program or Cluster</u> |
|--|---|
| 93.658 | Foster Care Title IV-E |
| 93.674 | Chafee Foster Care Independence Program |
| Dollar threshold used to distinguish between Type A and Type B programs: | \$ <u>300,000</u> |
| Auditee qualified as low-risk auditee? | <u> X </u> Yes _____ No |

Section II - Financial Statement Findings:

None

Section III – Federal Award Findings and Questioned Costs:

None

**WALDEN FAMILY SERVICES
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2014**

There were no prior audit findings for Walden Family Services relative to federal awards.